

## **The Governor's Report – December 2021**

The Governor's Report for December 2021 provides an overview of key activities of the Central Bank concerning implementation of targets and objectives defined by the Central Bank of Montenegro Policy for 2021, on a monthly basis.

In December, activities of the Central Bank were conducted pursuant to the planned obligations determined by the Central Bank of Montenegro Work Programme for 2021.

According to final Monstat data, Montenegro's GDP in 2020, amounted to 4,185.6 million euros, which is a real decline in GDP of 15.3% in relation to 2019. According to preliminary Monstat data, a real decline of 6.5% was recorded in Q1 this year, while respective growth of 19% and 25.8% was recorded in Q2 and Q3 in relation to the same quarter of the previous year.

In December 2021, consumer prices were 0.3% higher in relation to the previous month, and 4.6% higher y-o-y.

In 2021, the industrial output recorded a year-on-year growth of 4.9%. Production increase was recorded in electricity, gas and steam supply sector (8.5%) and in manufacturing industry (9.1%), while the mining and quarrying sector recorded a decline (-24.4%).

According to preliminary data, the number of tourist arrivals in collective accommodation establishments amounted to 730,423 in 2021, which is 171.7% more in relation to the previous year. At the same time, a total of 2.9 million overnights were recorded, which is a 212.2% increase y-o-y

Preliminary Monstat data show that during the first nine months of the current year, air passenger transport recorded a year-on-year growth of 145.5%, while air cargo transport rose by 53.2%. The number of passengers transported via railways increased by 14.4%, and railway freight transport dropped by 27.6%. Road passenger transport was 23% higher, while road freight transport increased by 5.5% year-on-year.

In 2021, production of wood products amounted to 154,182 m<sup>3</sup>, which is a decrease of 48.5% in relation to the previous year. In 2021, according to preliminary Monstat data, construction recorded a decrease of 4.8% year-on-year, measured in terms of the value of executed construction works, but an increase of effective working hours of 0.7% y-o-y.

In December 2021, the average number of employed persons amounted to 211,302, or by 0.9% more compared to the previous month and by 31.3% more in relation to December 2020. In December 2021, the number of unemployed persons amounted to 57,386 which represents an increase of 2.6% in relation to the previous month and an increase of 20.8% compared to December 2020.

As at 31 December 2021, out of 52,683 business entities registered as active in the Central Registry of Business Entities, and as having active accounts in the Central Registry of Transaction Accounts, a total of 15,657 or 29.7% were blocked. Compared to the previous month, the number of blocked business entities increased by 0.5%, yet it rose by 3.2% compared to the same month of 2020. At end-December 2021, the total amount of debt used as the basis for blocking the accounts of commercial entities amounted to 857.3 million euros, showing both monthly and annual increase of 1.6% and 15%<sup>1</sup>, respectively.

As at 31 December 2021, of the total number of business entities with blocked accounts (15,657) a total of 1,576 were under uninterrupted blockage up to 365 days, with blocked funds in the amount of 48,832,341.68 euros or 5.7% of the total amount of blocked funds, while the number of business entities under uninterrupted blockage for over 365 days amounted to 14,081 and the blocked funds amounted to 808,427,967.01 euros or 94.3% of the total amount of blocked funds of business entities.

As at 31 December 2021, debt concentration was relatively high, considering that top 10 debtors (0.06% of total recorded debtors) accounted for 24.1% of the total debt being the basis for blocking of accounts. In addition, 50 of blocked business entities (0.3% of total number of blocked business entities) accounted for 45.9% of the total debt used as the basis for the account blockage.

Total assets of banks amounted to 5.33 billion euros at end-December 2021, which represents the annual growth of 741.6 million euros or 16.2%. In terms of the

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<sup>1</sup> The data was corrected in a new post of the report summary from 28 March 2022.

structure of balance sheet of banks, total loans make up the dominate share. At end-December 2021 total loans amounted to 3,360.3 million euros, which is 3.3% lower in relation to the previous month yet 6.4% higher in relation to December 2020.

In the structure of liabilities, deposits made up the main share of 78.8%. In December 2021, deposits in banks amounted to 4,201.2 million euros, rising by 0.5% m-o-m and by 24.6% y-o-y. Total capital of banks at end-December 2021 amounted to 629.5 million euros, which is an increase of 1.4% in relation to the previous month, while there was an increase of 6.8% in relation to the corresponding period of the previous year.

Past due banking loans (without interests, and prepayments and accruals) amounted to 164.4 million euros, which is a monthly increase of 4.1% and an increase of 13.9% y-o-y. At end-December 2021 non-performing loans (without interests, and prepayments and accruals) amounted to 207.3 million euros and made up 6.2% of total loans. In relation to the previous month, non-performing loans of banks decreased by 0.3%, while recording an annual increase of 19.9%.

The weighted average lending effective interest rate (WALEIR) on total loans approved amounted to 5.66% at end-December 2021, which represents a monthly decrease of 0.03 pp, while in relation to end-December 2020 it recorded a decrease of 0.18 pp. The WALEIR on new loans amounted to 4.83%, which represent a monthly decline of 0.36 pp, and a decline of 0.33 pp in relation to December 2020. The weighted average deposit effective interest rate (WADEIR) amounted to 0.35%, recording a monthly growth of 0.01 pp and the year-on-year decline of 0.05 pp.

At end-December 2021, reserve requirement of banks amounted to 217.1 million euros, which represents monthly decline of 2.6 million euros or 1.2%, while in relation to the corresponding period of the previous year, reserve requirements increased by 37.6 million euros or 21%. All banks allocated and maintained reserve requirements within prescribed limits over the course of the reporting month. In the total amount of allocated reserve requirement, 61.6% was allocated to the reserve requirement account in the country, while 38.4% was allocated to the CBCG's account abroad.

This year, the gross insurance premium amounted to 98.8 million euros. Non-life insurance premiums accounted for the main share in its structure with 79.7%, while invoiced life insurance premiums accounted for the remaining 20.3%.

The generated turnover on the Montenegro Stock Exchange amounted to 46.5 million euros in 2021, done through 1,618 transactions and being 1.5 times higher in relation to 2020. As at 31 December 2021, stock exchange capitalisation amounted to 3,188.7 million euros, recording a monthly and annual increases of 1.7% and 0.3%, respectively.

At the same time, the MONEX SE index stood at 9,867.37 index points at end-December 2021, recording a monthly and an annual decrease of 6.6% and 4.5%, respectively. The MNSE10 SE index amounted to 764.72 index points, recording a monthly increase of 0.1% and an annual increase of 7.3%.

According to preliminary data from the Ministry of Finance and Social Welfare, the source revenues amounted to 1.91 billion euros in 2021, and they were 1.6% than planned, yet being 16.6% higher compared to the same period of the previous year. Budget expenditures amounted to 2.01 billion euros and were 2.6% lower in relation to 2020, whereas 2.1% lower compared to the plan. The fiscal deficit reached 101.6 million euros or 2.1% of GDP.

At end-September this year, (gross) government debt amounted to 4,076.2 million euros or 83.5% of GDP. Of this amount, a total of 417.3 million euros or 8.6% of GDP referred to domestic debt, while external debt accounted for 3,658.9 million euros or 74.9% of GDP. The net government debt of Montenegro amounted to 72.8% of GDP.

In December, the Central Bank continued with the activities aimed at meeting the requirements on the road towards Montenegro's accession to the EU. Among other things, for the purpose of holding a meeting of the Stabilization and Association Committee, an article was prepared which contains an overview of the key and most important activities of the CBCG. On the occasion of the preparation of the Program of Accession of Montenegro to the European Union for the period 2022-2023. At the request of the Office for European Integration, the Program table was innovated within the negotiation Chapter 32, in the part of protection of the euro against counterfeiting. The implementation of the IPA regional project entitled "Capacity Building Program of the Western Balkan Central Banks with a view to their integration into the European System of Central Banks" was completed in December. Participation in the online TAIEX expert mission was realized in cooperation with experts of the Bank of Hungary, „*Preparation of the project plan of the national instant payment system.*” Participation was realized in the fourth plenary meeting of the working group for negotiating Chapter 30 - External

relations. Participation was held in a meeting with representatives of MONSTAT in order to further improve the production and transmission of data in the field of national accounts statistics and balance of payments to meet the final criteria for closing Chapter 18 - Statistics.

With a view to fostering and maintaining a sound banking system, Montenegro's banking sector was subject to continuous oversight and analysis. International reserves management was performed following the principles of liquidity and safety. Activities regarding the Central Bank's function of a fiscal agent were also performed successfully. RTGS and DNS systems availability amounted to 100% in December.

In line with the highest transparency standards, the general public was timely informed about the activities, goals, and results of the CBCG operations via public announcements, publications, web presentations, and media appearances. Pursuant to the Law Supplementing the Payment System Law, the Central Bank continued to publish on its website the information on legal entities and entrepreneurs whose accounts were blocked for the amounts exceeding 10,000 euros for a continuous period of over 30 days.